

NOTE TO READERS: The following is a draft letter of response to the letter to management from the Town's auditors regarding recommendations for improved operations. The Board of Selectmen will review and approve the final version on December 10, 2012.

December 3, 2012

Melanson & Heath
10 New England Business Center, Suite 107
Andover, MA 01810

RE: Response to Letter to Management regarding the financial statements
and independent audit of the Town of Wayland, Massachusetts
for Fiscal Year Ended June 30, 2012

We are pleased to provide a statement of progress made and continuing efforts to conform to the current year recommendations offered by your firm.

1. Develop a More Formal Risk Assessment Process

The Town Administrator has committed to include a more formal risk assessment process that includes written identification of areas where potential fraud or material misstatements to the basic financial statements may occur. The topic will be a regular item at least bi-monthly at regular meetings of senior management team and department directors. While not suggested by the audit team, the Town may utilize the services of a financial management consultant to enhance both the quality and the independence of the risk assessment process.

2. Formalize a Fund Balance Policy

The recommendation to create a formal fund balance policy is multi-faceted and will involve the collaborative effort of senior management, the Board of Selectmen and the Finance Committee. Currently, the Finance Committee has established a target of 5% to 10% undesignated fund balance, known more commonly in Massachusetts as "free cash". While this general policy has been repeatedly published within the report of the Finance Committee in the Annual Town Meeting Warrant, the Town could benefit by developing specific definitions and benchmarks relative to unrestricted net assets and unassigned fund balance. Management notes that citizens at Annual Town Meeting have deviated substantially from approved policies made by their representatives in the past two years. The development of a formal policy is unlikely to eliminate the condition giving rise to this recommendation – the considerable fluctuation in unassigned fund balance.

We concur with the auditor's recommendation regarding the need to formally identify governance structures that are authorized to make assignments of fund balance and public processes to modify existing assignments. All assignments (formerly called designations), as distinguished from encumbrances, will be reviewed by the Finance Committee.

3. Segregate and Monitor School Billing, Collection and Turnover

[School department comment here] The School department recognizes and agrees with the need for further strengthening of internal controls. Ideally, given the resources, complete segregation of duties in the financial arena will be achieved. Practically, and more cost effectively, compensating controls through supervision and oversight procedures to reduce risk are being implemented. Significant changes have occurred in recent years, including new procedures in the business office around revenue collection and the payment of bills, increased use of the on-line payment center, the closing of all discretionary checking accounts, and the adoption of new student activity guidelines for the handling of student funds. Efforts are ongoing to improve internal controls in all areas with increased focus on the significant and valuable community programs referenced in this finding.

4. Examine the Use of Unauthorized Bank Accounts

The Town has retained an independent auditor to review the prior use of unauthorized bank accounts. Conclusions drawn from that review and recommendations of the consulting firm conducting the review will be evaluation by the Audit Committee and the School Committee and implemented if determined to be appropriate.

5. Strengthen Departmental Receipt Controls and Perform Internal Audits

The Town implemented a written receipt process in FY2009 as a result of a finding and recommendation of the previous auditor. The audit for FY ended June 30, 2012 revealed some departments deviating from procedures. As a result, senior management will conduct a training for all administrative support personnel within 60 days of this letter and conduct random internal audits to assure compliance with this policy.

6. Prepare to Implement GASB 68

The Town is committed to recognizing unfunded pension liabilities on the statement of net assets beginning with the audit for FY2015. In preparation for this disclosure, we will work with Middlesex Retirement System to obtain pertinent information necessary for the disclosure and educate public officials and citizens interested in the financial statements to better understand the changes.

Thank you for your comprehensive and informative presentation on December 3 to the Audit Committee and on December 10 to the Board of Selectmen, Finance Committee and citizens. We appreciate your comments and recommendations to assist us in reaching our goal of continuously improving financial reporting and municipal operations.

Respectfully submitted,

FOR THE BOARD OF SELECTMEN

Frederic E. Turkington, Jr.

Town Administrator

**c: Bill Steinberg, Chair, and members of the Finance Committee
Chris Riley, Chair, and members of the Audit Committee**